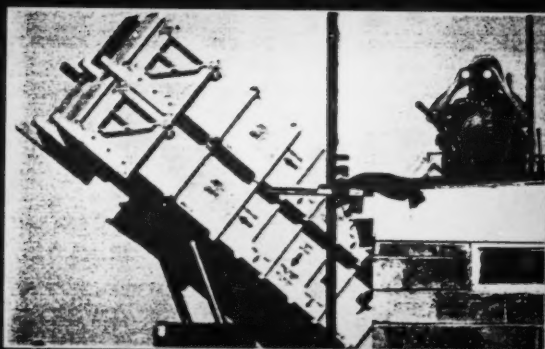


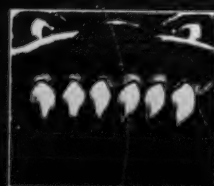
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How PepsiCo conquered Mexico

Forbes

THE ASBESTOS MONSTER



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Will it eat your company next?

The fund for broker failures isn't big enough.



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February 18, 1991 Four Dollars



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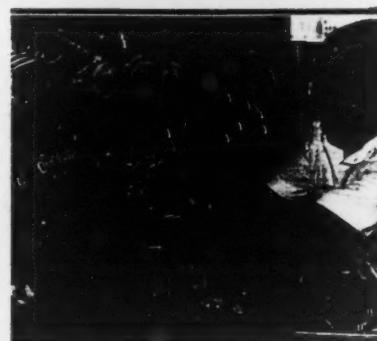
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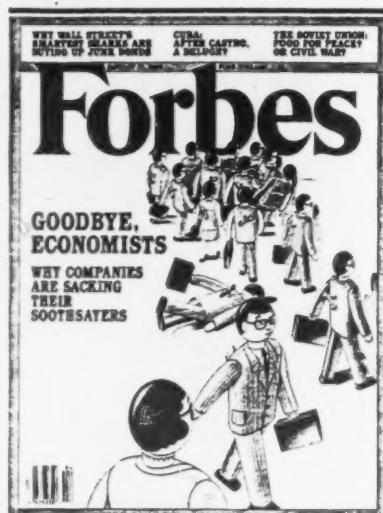
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Economic theory



Economists get the ax

SIR: I am dismayed by the level to which professional economists have taken the fine study of economics ("Dreary days in the dismal science," Jan. 21). I blame the emphasis placed on macroeconomics in our universities and those politicians who wish to steer our national economy.

—EDWARD T. PERRY
Midlothian, Va.

SIR: Macroeconomic forecasts do not have to be accurate to the last decimal place in order for the business economist to alert his management to swings in their markets and to point them in the right direction.

—EDITH H. ONYAN
Fort Lee, N.J.

SIR: Businesses make decisions based on their best estimates of what will happen. Your article did not suggest a better method of navigating this environment. Economics combines the science of studying the past with the art of analyzing the present.

—SEYMOUR BARCUN
Chairman, Management Department
St. Francis College
New York, N.Y.

Risky business

SIR: Re your Fact and Comment on the failure to reform deposit insurance. (Dec. 10, 1990.) Back in 1984

Peter Grace gave the federal government 2,478 ways to save taxpayers hundreds of billions of dollars in waste. One recommendation was to charge savings and loans varying premiums based on their level of risk, just like business does.

—FREDERICK E. BONA
Vice President
W.R. Grace & Co.
New York, N.Y.

Tapped out

SIR: "Tapping your IRA nest egg early" (Dec. 10, 1990) is timely in reporting a relatively unknown yet significant development in retirement plans. There is, however, one major error: If you begin tapping your IRA at age 50, you cannot cease at 55 without incurring the 10% premature distribution penalty. You must continue until the later of age 59½ or 5 years.

—THOMAS B. WHEELER
Wheeler Associates
Duluth, Minn.

Healthy return

SIR: In a table in your Annual Report On American Industry (Jan. 7) you show a deficit return on capital for RPM for the most recent 12 months. This is incorrect.

—FRANK C. SULLIVAN
RPM Inc.
Medina, Ohio

Return on capital should have been 13%.—ED.

Edsel Ford, left

SIR: In your Feb. 4 Flashbacks, that's Edsel Ford on the left, not Kermit Roosevelt.

—JONATHAN AMES
Detroit, Mich.

Mr. Ames is correct. The photographs were inadvertently transposed.—ED.

Well balanced

SIR: Re Chubb Corp.'s international expansion ("Insuring success abroad," Jan. 7). AIG, the leading U.S. international insurer, has an outstandingly successful overseas life business, which you do note. But you

fail to point out that AIG also has a strong nonlife business overseas. AIG's strength overseas is well balanced between life and nonlife operations.

—MAURICE R. GREENBERG
Chairman
American International Group, Inc.
New York, N.Y.

Japan bashing

SIR: Re Fact and Comment (Dec. 24, 1990). The Japanese may not be the biggest foreign buyers of our businesses, but they are the biggest sellers of TVs, autos, etc. that U.S. businesses are unable to produce. When we build a better mousetrap, we won't have to bash Japan for being more productive.

—ELNA R. SCHWELLENBACH
Cottonwood, Ariz.

SIR: We perceive the Japanese take advantage of the relatively free access to other markets while keeping theirs relatively closed. Were the Japanese perceived to be fair in allowing access to their markets, Japan-bashing would drop precipitously.

—ERNEST S. NOUNOU
New York, N.Y.

Nature/nurture

SIR: To suggest that character alone explains why the great majority of our citizens is above the poverty line is naive (Michael Novak, Jan. 7). Personal character is not available by prescription: Like any seed it needs a decent environment in which to develop. Otherwise it rots.

—PARKER W. SILZER
New York, N.Y.

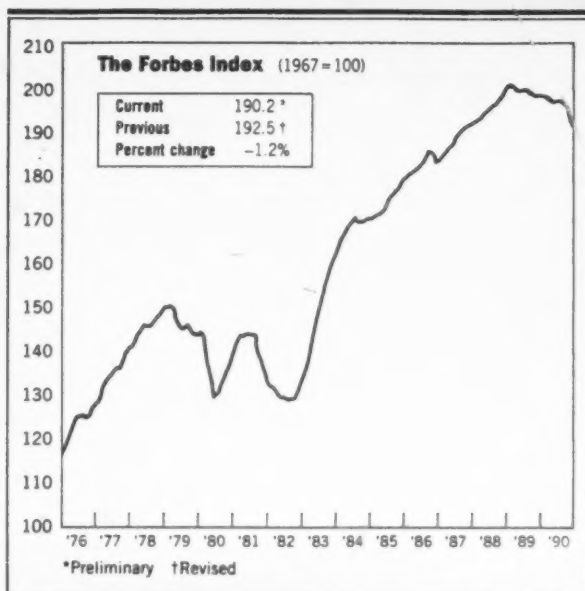
My generation

SIR: Re Michael Novak's column (Dec. 24, 1990) and Dr. Thomas J. DiLorenzo's letter (Jan. 21). There is no concern to be worried about our young. Years ago, when I lived in Germany, there was a saying: "If you are young and not a socialist, you have no heart. But if you are a socialist when you are old, you have no brains." All God's children will grow up. Some parents may die waiting, but eventually. . . .

—KURT J. ALTSCHUL
Bronx, N.Y.

THE FORBES INDEX

BY TIMOTHY DODMAN



With a 6.1% gain in 1990, the overall Consumer Price Index rose faster than in any year since 1981. Prices were climbing even before the invasion of Kuwait sparked the sharp runup in the price of oil. The Consumer Price Index rose 3% in both halves of 1990. Rising labor costs were also a factor: The services component of the CPI gained 5.7% in 1990. Only 58,000 new housing starts were made in December 1990, the lowest figure since February 1982. New unemployment claims jumped to 467,000 in December, the highest since April 1983.

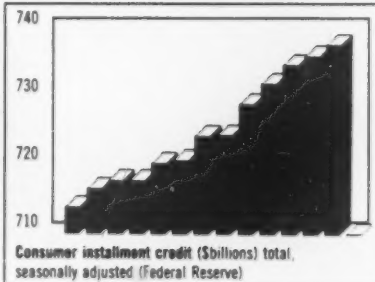
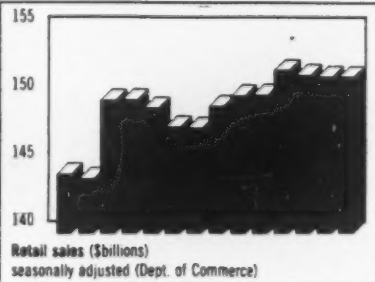
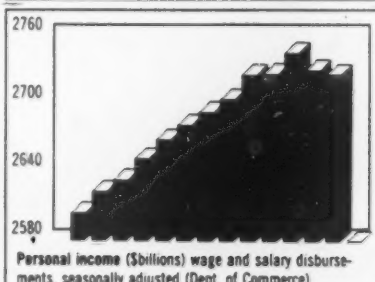
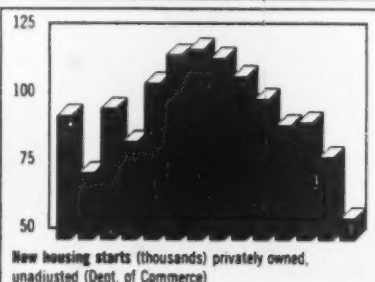
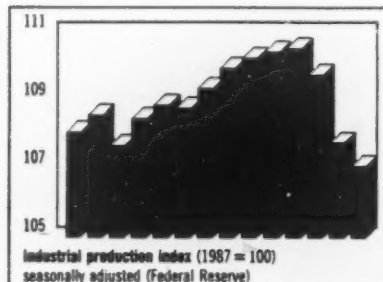
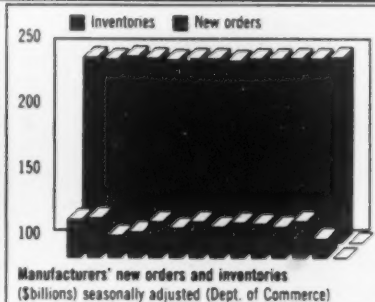
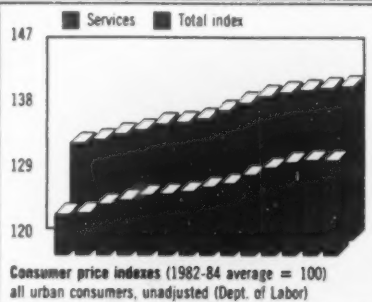
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	9.5%
Auto sales year to date vs. 1990 ¹	Ward's Automotive	-34.2%
Index of leading indicators November vs. October	Dept. of Commerce	-1.2%
Trade balance 12 months ended November 1990	Dept. of Commerce	-\$102 bil
All-commodity producer price index Dec vs. 1989 ²	Dept. of Labor	-0.1%
GNP 4th quarter vs. 3rd—annualized growth	Dept. of Commerce	-2.1%
NBER Experimental Recession Probability Index ³	Natl. Bureau of Economic Research	14.0%

¹ U.S.-based manufacturers, excludes imports, as of 1/20/91.
² Wholesale goods. ³ November 1990.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



N D J F M A M J J A S O N D
1989 1990

N D J F M A M J J A S O N D
1989 1990

N D J F M A M J J A S O N D
1989 1990



Having driven most of our asbestos companies into bankruptcies, litigators are going after any business that has had anything to do with asbestos.

IN DES MOINES, IOWA Judge James Brown recently upheld a \$506,000 asbestos injury award for Joseph Beeman. Beeman wasn't in court to hear the good news: He was too busy working as a plumber to attend more than two days of the three-week trial.

Nor did it matter that Beeman, who had fitted asbestos insulated pipes, suffered no clear ill effects from asbestos. His attorneys sought compensation for his "mental anguish and fear

By Suzanne L.
Oliver and
Leslie Spencer

concerning his increased risk of cancer." Fellow plumber James Eaton made the same claim in Judge Brown's court. Happily retired and wintering in Arizona, he sued 42 manufacturers, including Armstrong World Industries, Combustion Engineering and Union Carbide. Eaton lost his case before the jury. Even so, he collected an estimated \$20,000 from defendants who settled with Eaton before the trial.

If that seems stretching the law, consider this:

In Los Angeles last December, a jury awarded retired tire worker Simon Redditt \$155,000. This 75-year-old lifetime smoker walks 5 miles a day. He claimed past asbestos exposure caused him, among other things, shortness of breath.

These cases and 90,000 more like them go far beyond the 25,000 cases pending against asbestos manufacturers such as Johns-Manville and Raymark Industries by plaintiffs with asbestos-related lung cancers and asbestosis. Our populist-leaning courts are turning the asbestos issue into a giant lottery in which almost anyone can win and the consumers of America must ultimately pay.

Who's caught in this morass? The list is long (see p. 77). Armstrong World Industries has 60,000 claims pending against it alleging asbestos-related disease from exposure to its asbestos-containing felts, adhesives and floor tile. The cost of settling those could reach \$400 million. Armstrong had less than a 5% share of the asbestos product market.

B.F. Goodrich is also on the hook for floor tile that plaintiffs allege released dangerous amounts of asbestos when it was cut for installation or removal. There are 16,000 suits against A.P. Green Industries for refractory products that usually contained just 1% asbestos—an immaterial amount, unless you're a personal injury lawyer. Foster Wheeler, too, is a defendant in 14,000 asbestos-related suits claiming injury from cements and block insulation that contained just 3% asbestos.

Right now there are 115,000 claimants in asbestos cases working their way through U.S. courts. Just 5,000—a bit over 4%—suffer from mesothelioma, the deadly cancer almost always caused by asbestos. Many of these unfortunate victims die before they collect their awards because the courts are so clogged with meritless claims.

Dr. Irving J. Selikoff's seminal 1965 study of asbestos insulation workers established a firm link between asbestos exposure and lung disease. Further investigation has established definitively that asbestos fibers can cause mesothelioma, the rare and fatal cancer that attacks the pleura, or membrane encasing the lungs. The fiber can also cause asbestosis, a buildup of scar tissue inside the lung that impedes lung function. The lung scarring typical of asbestosis has 100 other causes, including many viruses.

Asbestos may also cause scarring on the pleura either in diffuse thickening or in spots, called pleural plaques. Mainstream science has established that this scarring does not affect lung function, nor does it develop into lung cancer. Federal district judge Spencer Williams calls pleural plaques "freckles on the lungs." The case against asbestos is weakened by the fact that it is not the only cause of pleural scarring. Other



Just checking
In a process duplicated across the country, trial attorneys and unions have hired vans like this one, equipped with X-ray and breathing test machinery, to screen factory workers for traces of asbestos-related disease.

causes include tuberculosis and broken ribs.

Nor, of course, is asbestos the only or even the main cause of lung cancer. A nonsmoking asbestos worker is 7 times more likely to develop lung cancer than is the general population, while a smoker not exposed to asbestos is 11 times more likely. Together, smoking and asbestos exposure are lethal. The risk of dying of lung cancer increases by a factor of 61 when the two are combined.

Research has also demonstrated that not all asbestos fibers are equally dangerous. The most deadly is amphibole asbestos, used primarily in Navy ships in World War II. Chrysotile asbestos, used in 95% of U.S. asbestos products, is relatively benign (FORBES, Jan. 8, 1990).

Astonishingly, between 65% and 80% of the claimants in asbestos suits currently pending in the legal system have symptomless pleural scarring, pulmonary maladies unrelated to asbestos or no lung disease whatsoever. Many of their claims have been prompted by lawyers' ads like the one on page 78. It is trial lawyers, their paid medical experts and sympathetic judges and juries who have turned asbestos litigation into a giant grab bag.

Consider the National Tire Workers Litigation Project. In 1986 two Los Angeles-based personal injury attorneys, Gordon Stemple and Richard Gerry, founded the organization. It was an interesting device for stimulating business for the lawyers.

Why tire workers? Stemple and Gerry learned that tire workers were sometimes exposed to asbestos in the talc used on tire molds. To build a large base of claims, the Tire Workers Project hired two former United Rubber Workers union presidents and paid them to persuade

Guilt by association

Hundreds of asbestos defendants, including GE, GTE and Eaton, made relatively harmless products, such as gaskets and brake linings. Others, including Crown Cork & Seal and McDermott International, never made an asbestos product but bought assets from a corporation that did. Today they are spending millions defending 115,000 pending asbestos personal injury claims. Already 15 companies have been bankrupted. The companies in the chart are some of the defendants left picking up the tab. For some, an average case cost of \$5,000 would do serious damage to their net worth.

Company	Net worth (\$bil)	Offending products include	Estimated cases pending
Allied Signal	\$3.4	brake linings	15,000
Armstrong World Industries	1.0	cements, sealers, floor tile	60,000
Crown Cork & Seal	0.8	insulation	2,000
Dana Corp	1.0	packing, friction materials	75,000*
Dresser Industries	1.6	textiles, refractory materials	15,000
Fibreboard	0.1	cements, pipe covering	72,000
Foster Wheeler	0.5	boiler insulation	14,000
WR Grace	1.7	coatings	18,000
AP Green Industries	0.1	fire bricks, pipe covering	16,000
Keene Corp	0.1	plasters, cloth, pipe covering	76,000
Owens-Corning Fiberglas	-0.4	cements, textiles, pipe covering	82,000
Pfizer Inc.	4.5	coatings	14,000
Union Carbide	2.4	raw asbestos, sealer board	75,000*
US Gypsum	-1.4	spray coatings, plasters, paint	34,000
Westinghouse Electric	4.4	circuit breakers	3,000

*Member of Center for Claims Resolution, a group of 20 asbestos defendants who share litigation costs. The Center has 75,000 claims pending against its members, though each member isn't named in every suit.

Sources: Owens-Corning Fiberglas Asbestos Litigation Reference Series; Center for Claims Resolution; *Forbes* estimates.

local Rubber Workers union officials around the country to set up health screenings for their members. Who footed the bill? Stemple and Gerry paid the costs of the screenings.

After a slide presentation graphically depicting the horrors of severe asbestos-related disease, the union members were ushered into the law firm's mobile examining room for X rays and breathing tests.

The lawyers' tests were performed by three doctors who didn't hesitate to find asbestos problems. One of them, Krishan Bharadwaj, wasn't licensed to practice in the U.S. The doctors' tests turned up evidence of asbestosis and pleural thickening in 65% of the thousands of workers screened. Compare this with a 1987 study by the National Institute for Occupational Safety & Health that found evidence of asbestosis in only 0.2% of tire workers and symptomless pleural changes in an additional 2.3%. Nevertheless, Stemple and Gerry brought suits in 12 states on behalf of 8,000 tire workers.

Raymark, a former maker of asbestos-containing tire parts, had already agreed to a mass settlement of 6,000 of Stemple's and Gerry's claims when it discovered the enormous disparity between the lawyers' screening and the government test. In a May 1990 opinion, Kansas district judge Patrick F. Kelly called Stemple and Gerry's litigation project a "professional farce. . . . The process makes a mockery of the practices of law and medicine."

After Judge Kelly's remonstrations, Gerry withdrew all but 6 of the 350 tire worker claims



Glenn Bailey of Keene Corp.

His company is named as a defendant in virtually all asbestos injury cases. Down to his last \$100 million of insurance, he has chosen to fight rather than settle.

he had filed in California against Pfizer and other former makers of asbestos-containing talc and insulation. Both Stemple and Gerry still have their hands in. They referred claims to other attorneys across the country, and will likely get a cut of any settlement they negotiate.

More personal injury lawyers adopted Stemple and Gerry's mass-screening technique. There were only about 20 asbestos cases pending in Bucks County, Pa. until 1988. Then the unions and the law firm of Timby & Dillon started screening steelworkers. Now there are over a thousand claims pending, filed by the law firms of Norman Perlberger, Lawrence Cohan and Timby & Dillon. Many of the claims are dubious. Cohan, for instance, filed suits on behalf of six men who had died of heart failure, kidney disease and other causes totally unrelated to asbestos.

For the granddaddy of asbestos cases, look at the mega class action, *Cimino v. Raymark et al.*, being fought out in federal judge Robert Parker's courtroom in Beaumont, Tex. (*see box, p. 78*). Beaumont plaintiff lawyers Walter Umphrey and Wayne Reaud created a class of 2,300 oil refinery workers and their families. They were selected from thousands of workers screened at Dr. Gary Friedman's Texas Lung Institute in Beaumont. Among the 2,300, Friedman diagnosed 32 cases of mesothelioma, 1,047 cases of asbestosis, 186 lung cancers, 57 other cancers and 972 cases of pleural thickening.

Yet refinery workers wouldn't seem to be a very likely group of asbestos claimants. Doctors

Asbestos suits

who reexamined some of the plaintiffs for the defense say that more than 50% of those reexamined showed no sign of asbestos exposure. Moreover, a 1989 study of refinery workers published in the *American Journal of Industrial Medicine* showed that refinery workers have a lower incidence of cancer than the general population does.

Why might Dr. Friedman's results differ so much from those of the *American Journal of Industrial Medicine*? Friedman owns the Texas Lung Institute, which is almost solely devoted to screening workers referred by plaintiffs' attorneys and unions. It has earned at least \$4 million in revenues since 1984. As an expert witness for the plaintiff, Friedman himself earns an additional \$3,500 a day when he testifies.

Contradictory medical evidence notwithstanding, the 2,300 plaintiffs in Cimino have already collected an estimated \$62,000 each from defending companies that have opted to settle out of the suit. The jury awards against companies that went to court rather than settle start at \$540,000; these will be appealed. The firms of lawyers Umphrey and Reaud have together already collected over \$57 million in contingency fees from pretrial settlements and would, on paper, be entitled to another \$430 million from this case if it is fully upheld on appeal.

Lawyerly greed? Maybe, but there's a larger issue at stake here. The lawyers, good business people, are simply pursuing their own interests in an era when the tort system's rules for assigning blame and assessing fair compensation have become dangerously vague.

Consider this case: A man spent from 1941 to 1945 surrounded by potent spray-on asbestos insulation while constructing U.S. Navy warships. The insulation material used the deadly and rarely processed amphibole asbestos. Later on, the man worked as a mechanic at a USX steel plant and came into occasional contact with asbestos-containing tractor and crane parts made by subsidiaries of General Electric, GTE and Eaton. The parts contained the not-so-dangerous chrysotile asbestos fibers.

Late in life, the mechanic developed mesothelioma, from which he died. Was the cause of his death the spray-on amphibole asbestos in the Navy shipyards? In all likelihood, yes. But in November 1990 a Pennsylvania jury decided that the parts made by GE, GTE and Eaton were the primary cause of the mechanic's death. Along with three settling defendants, they were told to pay the mechanic's widow \$189,500.

Companies like Allied-Signal, GTE, GE and Eaton used asbestos as insulation in brake linings, circuit breakers and parts for industrial machinery. According to epidemiologist Dr. Robert N. Sawyer, "You can't get asbestos dust

Tilted scales



Federal judge Robert Parker

LUNG DISEASE? LUNG CANCER?

How to Collect Money Even If...

Even if you think there is nothing you can do about it
Even if you think it's too late
Even if the doctor told you
nothing would your problem.
Many people with cancer or other lung disease never find out about money they deserve right now for medical bills, lost wages and most of all, for physical and emotional suffering. They don't realize that they are entitled to collect because they were exposed to deadly asbestos dust at work or even in their own homes. You may think that you were never exposed to asbestos. But thousands of people like you are collecting money for exposure they never knew about or had totally forgotten. For free answers to your questions, over the phone or in the office call:
Boston 628-9223
Mason 524-1280
Franklin 878-9228
Lynn 526-7171
Quincy 328-5538
Lowell 462-1303
Waltham 880-5708.
Sponsored by the Law Offices of
S. George Greaney

Solicitation for
asbestos
claimants

**How to collect
even if your
doctor said
smoking
caused your
lung problems.**

out of most of those products." But for many judges and juries, such fine distinctions are irrelevant. They see deep pockets and go for them.

Keene Corp. is regularly sued for the asbestos insulation once manufactured by a subsidiary. Four years after Keene bought the subsidiary for \$8 million it stopped using asbestos in its insulation. Already Keene has spent \$330 million disposing of 64,000 asbestos claims, and another 76,000 claims are pending. It's the theory of "successor liability" that puts Keene on the hook for the subsidiary's alleged sins committed before that subsidiary was acquired. Other defendants like New Orleans-based McDermott International bought companies long after they had quit making asbestos products. Crown Cork & Seal never made asbestos-containing products. It simply owned an asbestos insulation manufacturer for 82 days. Under the new tort theories, such defendants are facing huge claims in asbestos-related lawsuits. It's as if Jones buys Smith's house and then gets sued by someone who fell down the stairs years ago when the house still belonged to Smith.

Such is the expense of litigation in the U.S. today that most defendants settle regardless of the merits of the case against them. Yes, settling asbestos claims is expensive, too; the litigation

In Gulf town Beaumont, Tex. asbestos litigation is a growth industry. Federal judge Robert Parker oversees some 4,000 asbestos cases, representing about 5,000 claimants. Most plaintiffs do not suffer from anything that can be laid directly to asbestos exposure, according to defendants' experts.

The court has resolved very few cases since 1986, though settling defendants keep mailing checks to Beaumont. With his backlogged asbestos docket, Parker is trying to devise a "national solution" to the asbestos mess.

Parker's model solution is laid out in *Cimino v. Raymark Industries et al.*, soon to be on appeal before the Fifth Circuit. In this enormous class action, some 2,300 oil refinery workers and their families

allege that they suffer from ill effects of asbestos in the refineries' insulation, pipes and machinery.

From the group, Parker selected 160 "sample plaintiffs" representing the five types of alleged malady in the suit. These plaintiffs were sent to jury trials; their verdicts averaged within each disease category. Ranging from \$540,000 to \$1.2 million per claimant, these averages were then awarded to the entire class of 2,300. Total awards: \$1.3 billion.

Parker's sample group was heavily weighted in favor of the plaintiffs. Even though only 1.4% of the whole plaintiff group had been diagnosed with mesothelioma, the most severe form of asbestos-related disease, fully 9% of Parker's sample group had mesothelioma. Moreover,

when deciding damages, Parker didn't allow the jury to hear evidence about the 2,000-strong plaintiffs outside the sample group.

In January 1990 the U.S. Court of Appeals for the Fifth Circuit protested that many of Judge Parker's courtroom methods in *Cimino* denied defendants' right to a fair trial. Parker modified some procedures slightly, and went ahead.

One Beaumont lawyer who should hope Parker's methods are upheld on *Cimino*'s next trip to the appeals court is Walter Umphrey, the judge's former hunting partner (and lead plaintiffs' attorney in *Cimino*). Since 1986 his firm has grossed \$33 million in contingency fees from settlements in the *Cimino* case alone. Plain-

tiffs can settle with some defendants for cash while maintaining the case against other defendants. Thus, the lawyers keep their \$33 million even if the appeals court throws out the jury verdicts.

In October Judge Parker approved a payout to Umphrey's clients in *Cimino* of \$98 million from the Manville Trust. Of that, Umphrey's firm will likely keep a third.

Chief Justice William Rehnquist appointed Parker in September to a panel of six judges to advise on asbestos litigation solutions. If every current claimant in the country received even the smallest award in the *Cimino* case, the bill would come to over \$62 billion. Not exactly a solution, but apparently fine with the judge.

—L.S. and S.L.O.

counsel of one defendant with 15,000 pending cases alleging asbestos exposure from its refractory products says that settling a claim for \$500 can cost an additional \$5,000 in legal expenses.

But fighting is even more expensive. The cost of going to trial can be at least \$25,000 per defendant, before the costs of any award. And there is no telling what a jury will do.

Harry Nofts, for example, had worked as an insulator in a Firestone plant. At 73 he suffered from severe emphysema from a lifetime of smoking. Dr. Paul Wheeler, a radiologist at Johns Hopkins School of Medicine, says that Nofts had pleural plaques, but no other evidence of asbestos-related disease. A pulmonologist serving as expert witness for the defense told the jury that the heavy smoker's breathing trouble was caused by lung decay typical in emphysema patients.

The plaintiff's expert witness was Dr. Clara Gelbard, one of the three doctors who diagnosed the inordinately high rate of asbestos disease in the Tire Workers Litigation Project. Gelbard told the jury she saw asbestosis on Nofts' X ray, and blamed his shortness of breath in part on asbestosis. Judge Kurt Lewin forbade defense attorneys to tell the jury anything about Gelbard's work for the Tire Workers project. Nofts was awarded \$200,000.



Pages from a lawyer's reference guide to asbestos products

Recognize a label from a product you used? Then you can sue.

There is another incentive to settle: Punitive damages are now regularly awarded in cases of mere negligence. The threat of punitive damages has become a very powerful weapon used by the plaintiffs' lawyers to persuade companies to settle. Claims are typically settled for \$90,000 to \$105,000 each, with the sum usually split among as many as 40 defendants.

Asbestos litigation has cost defendants and their insurers about \$7 billion so far, most of that going to lawyers and experts. Pending cases could cost another \$20 billion, based on an average historical total cost of \$170,000 per claim. But this total may be too low. The cases are still coming in—at a rate of 2,000 a month. Thus, the final tab could hit \$50 billion or even \$100 billion, according to Paul MacAvoy, dean of the University of Rochester's business school and an expert on the costs of asbestos-related disease. That's not counting the cost of removing asbestos from buildings, currently estimated at \$100 billion.

Meanwhile, insurance coverage is running out. Eagle-Picher had only \$8 million left and 65,000 cases pending against it when it went bankrupt. If Fibreboard loses its appeal claiming unlimited asbestos liability coverage from two of its insurers, it will probably go bankrupt.

Who is next on the litigation hit list?

THE FORBES WALL STREET REVIEW

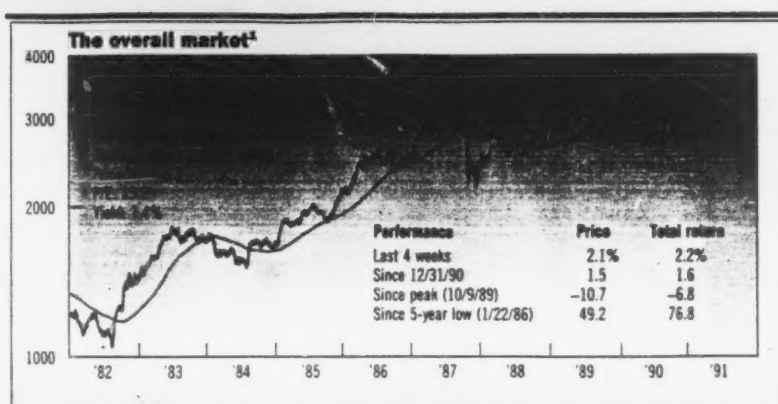
BY ERIC S. HARDY

The end of months of Persian Gulf uncertainty sparked a strong rally on Wall Street. The Dow industrials have gained more than 150 points since the fighting began in the Persian Gulf, and finished the two weeks ended Jan. 24 with a 5.8% gain. Smaller stocks finally got going, too. The Nasdaq index was up 8.1%.

For now, investors have shrugged off the recent cancellation of the A-12 Navy stealth bomber program, for which General Dynamics and McDonnell Douglas were the two primary contractors. The success of sea-launched cruise missiles, the F-16, and other armaments helped boost the price of General Dynamics stock more than 36% over the past two weeks, while McDonnell Douglas is up 21% over the same period.

First Interstate Bancorp rebounded from its poor showing early in January with a two-week gain of 35%. "The company posted its fourth consecutive quarter of positive earnings, and there are takeover rumors," explains Kidder, Peabody analyst Thaddeus Paluszek.

The war against Iraq has not helped gold and oil prices. Gold dropped nearly 5%, to \$372 an ounce, while silver hit a 16-year low of \$3.80 an ounce. West Texas intermediate crude oil sold for \$28 a barrel on Jan. 10, then dropped below \$20, and settled near \$25.



The best performing stocks

Company	Price	2-week change	P/E	Avg vol (thou) ²	Rel Vol ³
First Interstate Bancorp	27½	35	NM	2,719	0.8
Storage Technology	25½	34	13	2,820	1.6
National Health Labs	12½	34	16	3,318	1.2

The worst performing stocks

Company	Price	2-week change	P/E	Avg vol (thou) ²	Rel Vol ³
Pittston	14½	-18	41	3,358	2.4
Battle Mountain Gold	6½	-18	20	4,411	1.3
Corona	3½	-16	16	636	0.4

Closeup on the market

Index or investment	Price	2-week change	Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,147.0	6.2%	Europe, Australia, New Zealand and Far East⁴ (EAFE) a dollar denominated capitalization weighted index	779.70	3.9%
Wilshire index 6,000 stocks, equal weighted	17.4	4.5	Institutional⁵ Approximately 200 stocks with high institutional ownership	101.60	8.5
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,643.1	5.8	Individual⁵ Approximately 200 stocks with high institutional ownership	82.92	3.9
S&P 500 Capitalization weighted cross-section, major stocks	334.8	6.4	Russell 200 index 2000 small market value stocks, capitalization weighted	135.04	5.9
NYSE Capitalization weighted, all listed common stocks	182.6	5.9	Gold⁶ (composite quote of 6 major dealers)	\$372.40	-4.6
Amex Capitalization weighted total return: stocks, warrants	306.7	2.6	Yen⁷ (per \$U.S.)	132.30	-1.4
Nasdaq Capitalization weighted, all issues except warrants	391.3	8.1	Commodity index⁸ (CRB futures index, 1967=100)	214.54	-2.7
Amex international market index Capitalization weighted, 50 largest ADRs	289.1	1.7	Oil⁹ (W Texas Intermediate)	\$25.30	-8.7
			T bills¹⁰ (90 days)	6.11%	-11.0 basis points ⁷
			Broker loan rate¹¹	9.00%	Unchanged

Note: All data for periods ending 1/24/91. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalization of \$500 million or more. ¹Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif.

² Average daily volume over a 2-week period. ³ Average daily volume over the last 2 weeks, divided by the average daily volume during the preceding 3 months. ⁴ Morgan Stanley Capital International perspective. ⁵ For period ending 1/25/91. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. ⁶ Knight-Ridder Financial Information. ⁷ A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

BY STEVE KICHEN

Who made the most money?		
Investment	Value of \$10,000 invested 12/31/80	Change last quarter
S&P 500	\$36,552	9.0 %
Shearson Lehman Govt & Corp	33,333	5.1
Wilshire index	32,695	8.7
Institutional balanced account ²	31,995	6.2
Institutional fixed income account ²	31,992	4.9
Institutional equity account ²	31,435	8.6
Treasury index	22,932	2.0

Segment performance and cash flow		
Segment	Most recent quarter	
	median total return	shift in institutional holdings
Equity	9.4%	-0.7%
Fixed income	5.0	-1.3
Cash equivalents	2.0	3.3
Convertibles	2.8	-0.1
Other ³	1.3	0.2
Total	7.6	-1.2

Before the January war rally some pension fund managers were unusually bearish. George Wolfe, vice president of Wilshire Associates, says that 7% of the equity managers in his pension survey finished 1990 with more than half their holdings in cash. That is a record for the ten years that Wilshire has been collecting data on professional portfolio managers.

The bearishness hurt. In the last quarter of 1990, when stocks were up strongly, the median portfolio had a total return (including reinvested dividends) of 8.6%, against a 9% total return on the S&P 500. A hypothetical portfolio consisting only of the pros' stock picks but not diluted by cash holdings, would have climbed 9.4%.

What contributed to the good stock picking? "The managers were significantly overweighted in financial stocks, and finance stocks were one of the two best-performing sectors," says Wolfe. "Energy stocks have long been underweighted, and they were one of the worst groups."

But the year as a whole was tough for equity managers. The return on the median equity portfolio (including cash) was -4.5%, slightly worse than the loss of 3.2% for the S&P 500, but better than the loss of 6.2% for the much broader Wilshire index.

The pros seem to have made money in growth stocks and moved on. During the last two years, stocks with high price/earnings ratios (over 16) outperformed stocks with multiples under 10. But high-multiple stocks now make up only 16% of the institutional universe, down from 64% in 1986.

What the institutions bought and sold

Big stocks ^a					
Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Amgen	1.3	15	Crown Cork & Seal	0.9	15
Calgon Brands Int	2.9	15	First Chicago	-0.5	8
Citizen Utilities	9.2	12	Genentech	-9.1	NM
Clorox	12.6	14	Louisiana Land & Explor	-16.5	31
Manufacturers Hanover	0.0	5	Marion Merrell Dow	11.3	14
National Health Labs	-12.4	14	Martin Marietta	18.8	7
Penn Central	-6.2	12	Morgan Stanley Group	10.7	6
Potomac Electric Power	13.0	12	St Jude Medical	22.1	27
Rhone-Poulenc Rorer	16.3	NM	Sun Microsystems	-2.3	15
Safety-Kleen	17.9	27	TRW	4.1	10
UAL	13.2	11	Tyco Labs	-13.6	14
VF	20.4	8	US West NewVector	62.5	NM

Secondary stocks¹

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Eastman Chemical	1.7	8	Advanced Micro Devices	-1.7	NM
Eastman Kodak	1.7	8	Eastman-Kodak	-37.2	NM
Eastman	1.7	8	Homedale	-36.1	NM
Eastman Industries	-22.5	13	Integrated Systems	19.0	28
Eastman Energy Resources	3.8	16	Novellus Systems	-8.9	12
Health Images	43.6	28	Pioneer Financial Services	-36.7	3
Imagine Films Entertainment	28.1	20	Rally's	-20.0	11
Osmonics	37.0	18	Software Toolworks	-52.8	NM
Recognition Equipment	0.0	NM	Thermo Cardiosystems	7.8	NM
Smith Corona	23.3	7	Timberland	-19.0	3
Tekelec	22.2	12	UNC	-6.9	NM
Tetra Technologies	12.0	45	Waverly	6.8	19

¹Total return. ²Includes cash. ³Real estate, foreign investments, venture capital, guaranteed income contracts. ⁴Stocks with \$1 billion or more in market capitalization at start of quarter. ⁵Stocks with market capitalization between \$40 million and \$200 million at start of quarter. NM: Not meaningful.

Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalization, net of price changes. Data for quarter ending 12/31/90. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.

Cash is a nice thing to have in a recession. You can pick up bargain assets being dumped by heavily leveraged companies.

Liquid assets

By Eric S. Hardy and Robert C. Balancia



IF YOU ARE only moderately bullish on stocks, you probably have half your money in cash. Here's another way to be moderately bullish: Put all your money in the stock market, but select the shares of companies that have excess cash equal to at least 45% of their market value.

Genesee Corp. is one of these. Officially, it's a brewing company (you can get Genesee beer in more than 20 states, including New York, Florida and California), but a more accurate description of the line of business would be "money market fund." Debt-free Genesee has \$22 a share in

cash—an amount equal to 75% of its share price.

Genesee Chairman J.L. Wehle, with family members, owns 61% of the voting stock. About five years ago Genesee diversified into the food business and now is looking for acquisition candidates. But Wehle believes in taking his time. Maybe the recession will bring him the bargains that he wants.

The table lists 15 small companies (under \$250 million in revenues) that have net cash equal to at least 40% of market value. The "net cash" figure is cash less interest-bearing debt. We eliminated any firm in which earnings from continuing operations were off by more than 5% from the year-ago quarter. Firms with declining inventory turnover ratios—a clear sign that there may be trouble ahead—were also dropped. All of these stocks had positive earnings over the past 12 months, but they sell for no more than 17 times earnings. In short, these are all companies that not only have plenty of cash but are also unlikely to see that cash dwindle away in the near future.

Cash-rich small stocks

The cash and cash equivalents of these 15 companies are far in excess of their short-term and long-term debt. As of their most recent balance sheets, their net cash equaled at least 45%

of their market value. The current ratio of each of these companies (current assets divided by current liabilities) is at least 2. No company had a P/E ratio higher than 17.

Company/business	Price			Net cash/share*	Net cash/price	—Latest 12 months—		Current ratio
	Recent	53-week high	low			EPS	P/E	
Adaptec/software	9%	24%	8%	\$5.09	52%	\$1.74	5.5	6.3
Allen Organ/electronic organs	32%	38	26	19.71	67	2.96	10.9	28.1
Analogic/precision instruments	8%	10%	8	4.67	55	0.84	10.4	8.1
Chicago Rivet & Machine/fasteners	19	22%	18%	13.04	70	2.09	9.1	6.0
Crown Books/bookstores	16%	28%	13	8.68	53	2.10	7.9	2.7
Espey Mfg & Electronics/power supply systems	14	18%	11%	7.28	62	1.76	8.0	17.5
Fair Isaac & Co/credit evaluation systems	4%	6%	4%	3.09	65	0.28	17.0	3.3
Genesee/beer	29%	35%	25%	22.05	75	3.59	8.2	3.5
Jaclyn/handbags	7%	11%	6%	3.93	54	0.71	10.4	4.9
Key Tronic/computer keyboards	3%	5%	3%	2.48	68	0.24	15.1	2.8
Kit Manufacturing/recreational vehicles	5%	6%	4%	4.14	79	0.54	10.0	2.3
Prima Energy/oil exploration	5%	8	4%	2.65	45	0.72	8.2	2.9
Sage Labs/electronics	16%	18%	15%	7.45	45	3.89	4.2	2.9
Trimas/fasteners	13	20%	12%	6.37	51	1.32	9.8	4.3
Vista Resources/leather products	8%	18%	7%	5.20	62	0.71	11.8	4.0

*Cash and equivalents per share less short-term and long-term debt.

Source: Media General via Lotus One Source